

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

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Employer Identification Number:

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Contact person - ID number:

Contact telephone number:

Legend:
B = Number

UIL: 4945.04-04

Dear :

You asked for advance approval of your educational loan procedures under Internal Revenue Code Section 4945(g)(3). This approval is required because you are a private foundation that is exempt from federal income tax.

Our determination

We approved your procedures for awarding educational loans. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational loans meet the requirements of Code Section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

Description of your request

Your letter indicates that you will operate an educational loan program.

The purpose of your program is to provide loans to deserving students to be used for their post-secondary education. The loan proceeds may be used for education in colleges and universities, nursing, commercial training, trade and vocational schools, and any other forms of training to benefit the individual student.

You will base the number of loans on the number of applications and your available. You anticipate that the number of loans will be in the range of B in any one year. Further, you will base the amount of a loan on the recipient's need and the availability of other funds for their use as well as take into consideration their ability to repay the loan. You will not award any loans for a period of over one year. Student loans granted by you will accrue interest at a below market rate.

To promote your program and advertise its availability, your representatives will contact and request high school administrators encourage potential recipients to apply for a student loan.

To be eligible to qualify for your program to attend a college or university, the applicant must be deserving as reflected in their past academic achievement, public service and work ethic, and must meet the following as applicable:

- For the first year of college or university level study, the applicant must have applied for admission to, and been accepted for admission by, a college or university recognized as an accredited higher educational institution;
- For the second, third and fourth year and any additional years of college or university level of study, the student must be recognized by the college or university of enrollment as a student in good standing at the time of the application.

In addition, any worthy student wishing to attend a trade, commercial, vocational, or other school or institution recognized by you other than a college or university, is eligible to apply for a student loan. In this case, the applicant must have applied for admission to, and have been accepted for admission to the school. Furthermore, to qualify for a student loan for a second or any additional year of training at the school, the applicant must be recognized by the institution as a student in good standing.

To apply for your program, all interested students must submit a written request to you as well as submit supporting documents. These documents will be reviewed by a selection committee composed of your board of directors in an objective and nondiscriminatory manner. The selection committee will select recipients based on but not limited to prior academic performance, recommendations from teachers and community leaders, information regarding academic and other relevant experiences, financial need and their interview conclusions concerning the applicant's motivation, ability, and potential. The selection committee may also consider the applicant's place of residence, school attendance, course of study or participation or particular course of study or particular talents along with giving preference to deserving students who have expressed their intention to pursue a course of study in photography, journalism, or graphic arts. You may also give preference to a particular sex, race, ethnic background or religion, so long as such preference does not violate federal, state, local laws or regulations.

All recipients of your student loans or their parent or guardian if the recipient is under the age of majority must sign a promissory note which will provide that interest will not begin accruing before the anticipated graduation date or early withdrawal and termination from the educational institution. Payments in accordance with such note will begin upon the anticipated graduation date, or at such time as the student withdraws or is terminated from the educational institution. In addition, the loan proceeds will be paid directly to the school to pay for the recipient's expense of attending the school or college.

You represent that you will arrange to receive and review reports annually and upon completion of the purpose for which the loan was awarded, investigate diversions of funds from their intended purposes, and take all reasonable and appropriate steps to recover diverted funds, ensure funds are used for their intended purposes, and withhold further payments to recipients until you obtain their' assurances that future diversions will not occur and that they will take extraordinary precautions to prevent future diversions from occurring.

You represent that you will maintain all records relating to loans, including information obtained to evaluate the applicants, identify whether an applicant is a disqualified person, establish the amount and purpose of each loan, and establish that you undertook the supervision and investigation of loans.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code Section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code Section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is:
 - A scholarship or fellowship subject to Section 117(a) and is to be used for study at an educational organization described in Section 170(b)(1)(A)(ii); or
 - A prize or award subject to the provisions of Section 74(b), if the recipient of the prize or award is selected from the general public; or
 - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulations Section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

Long-term, low-interest loans that private foundations make for educational purposes can be considered grants under Code Section 4945(g)(3) and Revenue Ruling 77-434, 1977 2 C.B. 420.

Other conditions that apply to this determination

- This determination covers only the loan program described above. This approval will apply to succeeding loan programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes in your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot make loans to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and must further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code Section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your loan distributions with the IRS if necessary.

We've sent a copy of this letter to your representative as indicated in your power of attorney.

Please keep a copy of this letter in your records.

If you have any questions, please contact the person listed at the top of this letter.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements